GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA

UNSTARRED QUESTION NO:5020
ANSWERED ON:25.04.2003
INSTRUCTIONS ISSUED BY SEBI FOR MUTUAL FUNDS BUSINESS
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Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether the SEBI vide its circular dated 28.11.2002 issued instructions to curtail rebating in mutual fund business;

(b) if so, whether SEBI also recommended stringent action against defaulters; and

(c) if so, the impact and the instructions on institutionals and investors ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO V. ADSUL)

(a) : The code of conduct issued vide SEBI circular dated 26th June, 2002 prohibits sharing of commissions by the intermediaries of Mutual Funds with their investors and attracting clients through temptation of gifts etc. Further, the SEBI circular dated 28th November, 2002 inter-alia advises all Mutual Funds and intermediaries to follow it strictly and not indulge in any practice contravening it directly or indirectly.

(b) : SEBI circular dated 26th June, 2002 prescribes that no Mutual Funds shall deal with those intermediaries who do not follow code of conduct. This would act as a deterrent factor for the defaulters.

Further, SEBI circular dated 28th November, 2002 requires the Mutual Funds to report on the compliance of the code of conduct in the periodical meetings of the boards of Asset Management Companies and the trustees and they shall also report on the compliance in their quarterly and half-yearly reports submitted to SEBI.

(c) : The above guidelines have been issued by SEBI with a view that the Mutual Funds should mobilize funds from the investors on the strength of professional fund management, lower expenses and good management practices and not on the basis of unhealthy inducements to intermediaries and investors.